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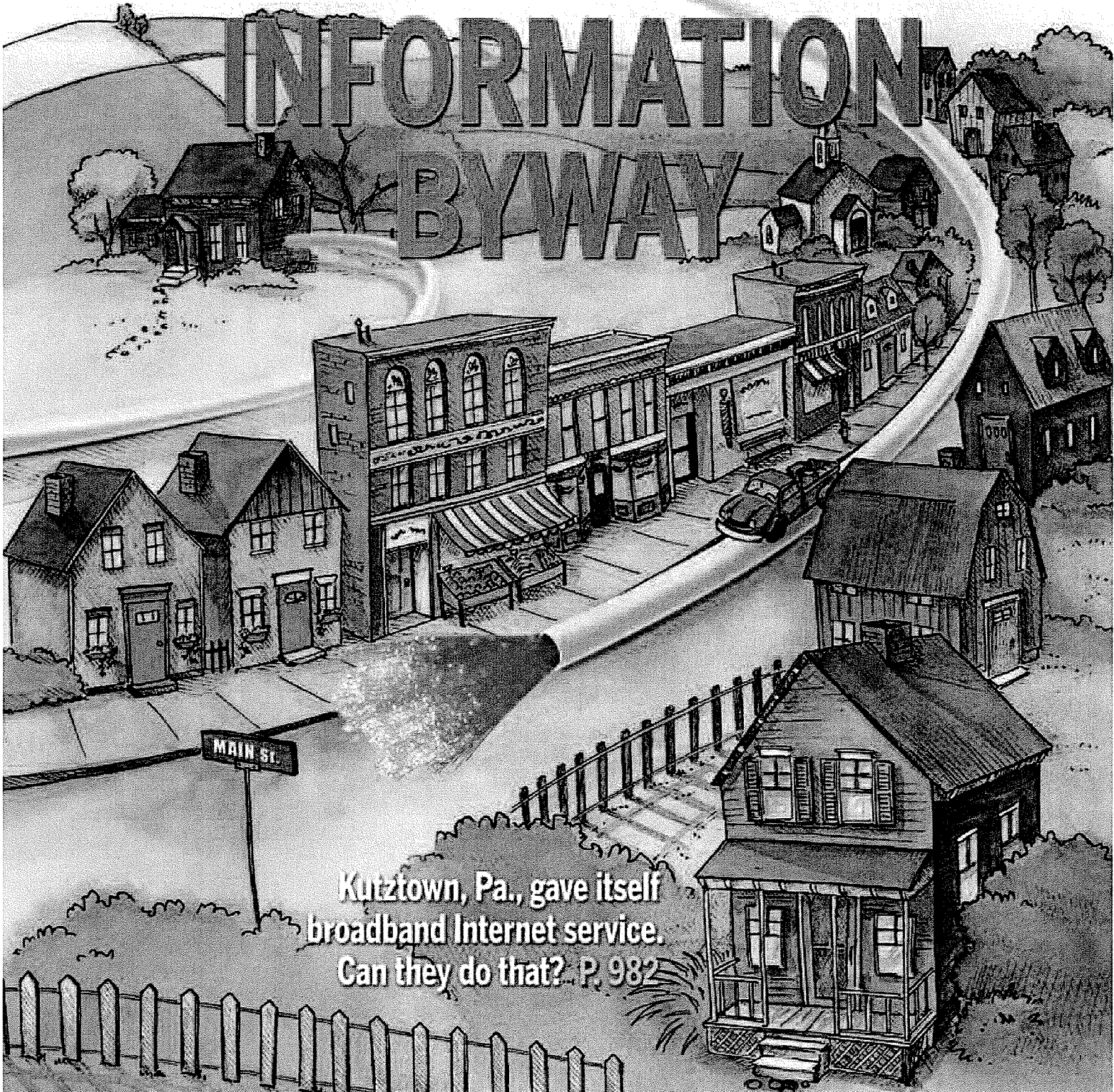
JUDGES: Even 'Going Nuclear' May Not Work P. 973

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INFORMATION BYWAY



Kutztown, Pa., gave itself
broadband Internet service.
Can they do that? P. 982

Cyber-Battle On Main Street

As high-speed Internet access becomes more necessity than novelty, towns forgotten by the free market build broadband on their own — a move industry is fighting

BY JOELLE TESSLER
AND AMOL SHARMA

KUTZTOWN, PA., TUCKED IN a farming valley an hour northwest of Philadelphia, faces economic hardships typical of rural America. Technological change and foreign competition have eroded much of its industrial base over the last 30 years, forcing two shoe factories, a silk mill and a textile mill to close. Today, only a foundry remains in the college town, and vacant storefronts give Main Street a faded air.

Borough leaders decided several years ago that upgrading the town's aging telecommunications infrastructure with high-speed Internet service would be a good way to jump-start the local economy and attract new business, especially the "bricks and clicks" companies that rely heavily on Internet sales. But the regional phone and cable television companies were not interested in making the investment necessary to bring advanced broadband to such an out-of-the-way community when big money could be made in more-affluent cities and suburbs.

So Kutztown's leaders took matters into their own hands and built a state-of-the-art fiber-optic broadband network available to each of the town's 2,200 homes and businesses. "We didn't want to be reliant on a company bringing service to us on their timeline,"

says borough manager Jaymes Vettrano. "To be a full member of this society, you need broadband."

When the network was launched in the summer of 2002, the region's big local phone company, Verizon, took little notice. But in the three years since, Kutztown's network has grown to 791 subscribers, and the idea has spread rapidly to other towns and even inner cities that have found themselves on the wrong side of the digital divide — either denied commercial broadband service or offered prices they considered too high.

During that time, the powerful telephone and cable industries have seen the billions in potential business that are at stake and have retaliated with a legal, political and public relations blitz meant to stop local governments from building their own systems. They contend that municipal systems are unfair competition that could stifle private-sector investment in advanced telecommunications. Fourteen states, under pressure from the telecommunications industry, have restricted municipal networks or banned them altogether.

The policy of the Bush administration and the preference of Republican congressional leaders is to let business build the nation's high-speed Internet infrastructure without government interference. Yet broadband Inter-



net looks more and more like a necessity for businesses and households. If, in fact, it has become a utility, that raises the question of whether government should help ensure broader access quickly and affordably, much as it did in the last century by bringing electricity to rural areas of the country.

The nature of government's role needs urgent attention because Internet commerce is growing exponentially, and so is the public appetite for high-speed connections. It is also a competitive issue: The United States ranks

behind 15 other countries in the percentage of people using broadband connections.

President Bush recognized the importance of broadband to the economy in a speech last year when he called for high-speed links to reach "every corner" of the country by 2007. He has not said just how that should be accomplished, though his administration clearly

prefers to rely on business. But the White House does not exclude the potential for some government involvement if the public demands it.

"The burden and challenge to the private sector is clear," says Michael D. Gallagher, assistant Commerce secretary for communications and information. "Meet the people's demand or they will meet it themselves."

REACHING 'EVERY CORNER'

One of the customers lured by Kutztown's low-cost municipal broadband service was Brendan Strasser, who moved his used book business lock, stock and computer from Allentown, 18 miles away, where he had been using a dial-up connection to the Internet. It was so slow he remembers going out to dinner while waiting for a batch of photographs to upload. Now the process takes a few minutes, and his connection costs about 25 percent less.

"There are some days that no one comes into the shop, but it's OK because I'm getting things done online," Strasser says. He figures at least three-fourths of the business at his Saucony Book Shop is online. "It's sort of like my online inventory is stored in a storefront."

High-speed access has become an essential tool for companies of all sizes, and a prerequisite for an increasing number of consumer applications and services. Broadband is putting entire libraries at the fingertips of grade school students and enabling adults to take college classes online. It is allowing people to search help-wanted ads and view houses for sale on the other side of the country, or the world. It is letting them do their jobs and apply for government services without leaving home, and it is bringing the latest medical breakthroughs to small community hospitals.

"For our generation, broadband is the equivalent

SMALL TOWN RENEWAL: Like many communities in rural America, Kutztown, Pa., has lost industry and commerce and has been trying to lure new commerce and customers to its faded business district. Frank Caruso, below, oversees Kutztown's new high-speed, fiber-optic Internet system that borough officials hope will help revitalize the town. Some businesses already have moved in to take advantage of the low-cost network.



of electrification a century ago,” says Jim Baller, founder of the Baller Herbst Law Group, which represents some municipal broadband systems. “Broadband is the core infrastructure that must be in place for our society to move forward. It’s every bit as important as highways and sewers and telephones.”

Already many applications, such as Internet-based telephone service and online video, require a high-speed connection. In the future, even more software programs and online services will be designed with broadband in mind.

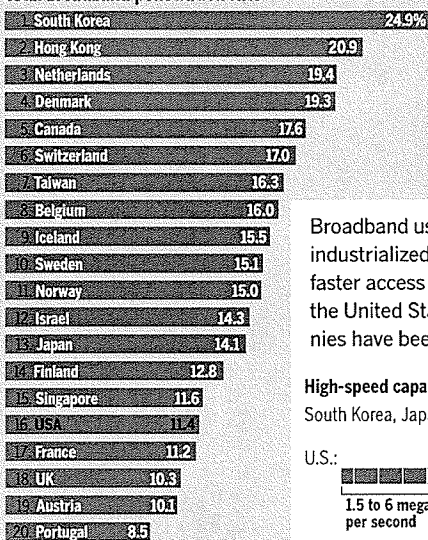
“It’s rapidly becoming essential to many spheres of life, whether getting an education, finding a spouse, being able to purchase goods affordably — you name it, it’s a portal to the future,” said Jim Snider, a senior research fellow at the New America Foundation, a centrist think tank.

Today, about 80 percent of U.S. households have a broadband provider in their area, according to the Federal Communications Commission, but only a quarter of them have actually signed up for the service. As of June 2004, the FCC says, there were about 32.5 million high-speed lines in the

Not All That Wired

The United States trails other industrialized nations in the percentage of people using high-speed Internet access. Most of the leading countries, though, are small or densely populated.

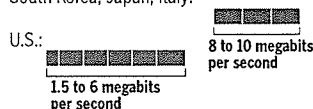
Total broadband penetration rate



Broadband users in many other industrialized countries enjoy faster access speeds than those in the United States, where companies have been slower to upgrade.

High-speed capability:

South Korea, Japan, Italy:



SOURCE: International Telecommunication Union

United States, most of them cable modem links or digital subscriber line (DSL) connections over phone wires.

Critics say those numbers are not good enough when measured against statistics from other countries. They point to a study by the

International Telecommunication Union that ranked the U.S. 16th among the world’s top economies in the percentage of people using broadband to reach the Internet at the end of 2004. The previous year, the United States ranked 13th. Countries higher on the list include South Korea, Denmark, Israel and Canada.

What’s more, broadband speeds in many other countries are faster. Internet services in South Korea, Japan and Italy can transfer data at 8 to 10 megabits per second and are delivering sophisticated interactive games, online video and television programs to subscribers. In the United States, cable users can download information from the Internet at about 3 to 6 megabits per second; DSL users typically are limited to about 1.5 megabits per second.

The battle over community broadband networks so far has played out mostly at the state and

local levels. But it is starting to filter up to Congress as lawmakers ponder changes to the nation’s telecommunications laws and debate whether the government is doing enough to encourage the spread of broadband. A few lawmakers have even begun to talk about pre-empting states from regulating municipal systems.

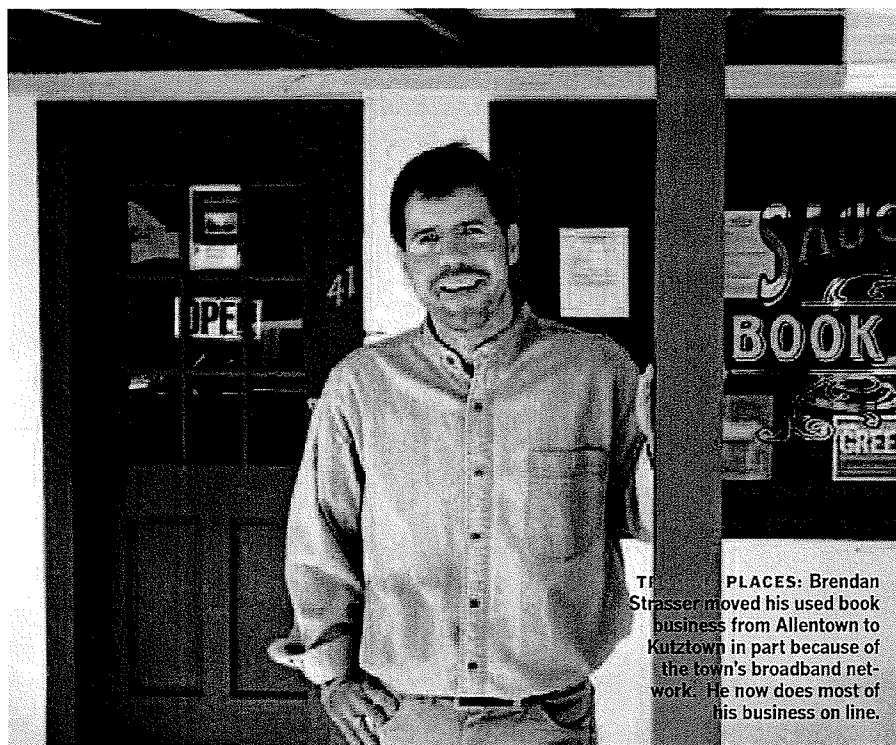
FREEDOM OF CHOICE

Rep. Charles W. “Chip” Pickering Jr., a Republican representing a largely rural district in Mississippi, sees no reason to stand in the way of municipal broadband networks. Pickering’s experience with telecommunications matters — as an aide to GOP Sen. Trent Lott he helped put together the 1996 telecommunication law — gives him influence with top Republicans.

“If cities and towns want to get into that business, that is part of freedom,” Pickering says. “It’s their choice. If people who paid the taxes in those communities are not getting the broadband service they need, municipalities need to provide a competitive choice.”

Some lawmakers say the key is to ensure that if the projects go forward, local governments will compete on equal footing with private companies.

“We have to consider what is a level playing field and what is not,” said Rep. Fred Upton, the Michigan Republican who chairs the Ener-



TRADING PLACES: Brendan Strasser moved his used book business from Allentown to Kutztown in part because of the town’s broadband network. He now does most of his business on line.

gy and Commerce Subcommittee on Telecommunications and the Internet. "I don't know how we ferret that out quite yet."

Virginia Democrat Rick Boucher, a member of the House Energy and Commerce Committee, suggests that municipalities should be required to raise their Internet access rates to account for their natural advantages, such as their tax-exempt status.

Beyond the battle over municipal networks, Boucher expects Congress to consider larger questions about the proper role of government in making broadband universally available as it rewrites the 1996 law. While the high cost of DSL and cable modem service has precluded much discussion of this issue so far, new low-cost wireless technologies could change the debate, he noted.

Still, many lawmakers are wary of too much government involvement in such a dynamic young industry. They fear that a heavy-handed approach could discourage private investment in broadband and cause the United States to fall even further behind.

"We should be very careful about allowing government to meddle," said New Hampshire Republican John E. Sununu, a member of the Senate Commerce, Science and Transportation Committee. "The government should create a clear and limited regulatory environment in which people who risk capital to build out broadband and other communications networks can earn a return on their investments."

ALONG THE DIGITAL DIVIDE

The reason the United States is behind other countries lies partly in the economics of telecommunications. In some rural areas, telecommunications companies have concluded that the markets aren't populated enough to justify the investment in expensive new high-speed wires.

Greg Richardson, founder and chief executive officer of Civitium, a management and technology consulting firm, says it may not be

economical for the private sector to roll out broadband if an area has fewer than 400 homes per square mile. So while some urban and suburban markets are already getting next-generation fiber-optic lines, many rural communities are still waiting for basic DSL or cable to arrive.

"In some ZIP codes in rural America, you'll find zip," said Alan Shark, managing director of the Rural Broadband Coalition, an advocacy group that works with local governments and industry to expand high-speed Internet access in rural areas.

The more common barrier to widespread broadband use is cost. Even where some high-speed service is available, many Americans are hard-pressed to afford it or are not sure it is worth the money. That is particularly true in

low-income inner-city neighborhoods, where many people cannot afford the \$25 to \$50 monthly cost of DSL or cable Internet service.

"If you're on food stamps, you don't have a \$50-a-month cable modem," said Ben Scott, policy director for Free Press, an organization that advocates more municipal broadband systems. The group was founded to promote greater public involvement in media policy and "a more competitive and public interest-oriented media system with a strong nonprofit and non-commercial sector."

Scott said the cost problem is often compounded in rural areas where broadband may be available, but only at very slow speeds and very high prices. "There are places where DSL costs \$170 a month for 1-megabit speeds, so effectively it is not available," he said.

The Bush administration does not see a dire situation. The number of high-speed lines in the country increased from 4.4 million in June 2000 to 32.5 million now, says Gallagher, who administers the Commerce Department's National Telecommunications and Information Administration.

And in the international rankings, Gallagher says, most of the countries ahead of the

United States are either densely populated and easier to serve — such as South Korea and Japan — or, as in the case of Canada, have much smaller populations. Indeed, in absolute numbers, the United States led the world in broadband lines as of the third quarter of last year, according to Point Topic, a broadband research firm based in the United Kingdom.

Gallagher says he is confident that the United States will reach Bush's goal of universal, affordable broadband by 2007 and that it will be accomplished by the private sector. But he says it in a way that seems to put the burden as well as the promise on business.

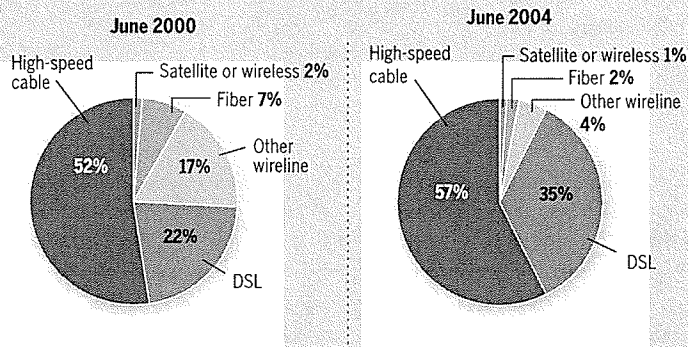
"The role of government is to create an environment in which entrepreneurs can flourish and technology can reach new frontiers," Gallagher says. "The private sector will have to

Broadband Use Increases . . .

The number of U.S. businesses and households with high-speed Internet connections has increased sevenfold in four years. Cable companies still have more than half of the market.

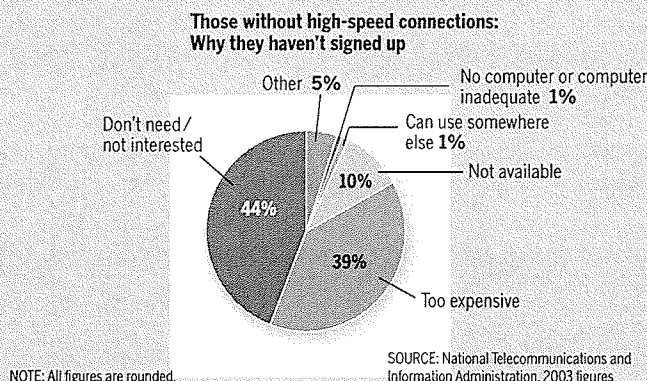
Number of high-speed lines in the U.S.

June 2000 4.4 million
June 2004 32.5 million



. . . But What's It Worth?

Monthly charges as much as \$60 are a big reason more Americans have not signed up for high-speed Internet access. Nearly half the public is just not interested.



build and deliver the promise of broadband. The job of the government is to create a policy environment where that can happen."

The federal government has taken a hands-off approach, giving the phone and cable companies incentives to build out high-speed networks by removing regulations that stand in their way. The theory is that competition between the phone and cable industries will make broadband widely available and push prices down.

The FCC has therefore released more radio spectrum for advanced wireless services and freed phone companies from obligations to share their new high-speed networks with rivals at government mandated discounts. The agency also has sided with the cable industry in a pending Supreme Court case, arguing that cable companies, too, should not be required to open their broadband networks to competing Internet providers. Congress, meanwhile, has extended a ban on state taxation of Internet access.

E-RATES AND GRANTS

Beyond all the deregulation, the government does support some limited subsidies. The E-Rate program, funded through a tax on consumers' phone bills, wires schools and libraries with high-speed Internet. And Congress has authorized the Agriculture Department to make about \$2.6 billion in loans, and a small amount of direct grants, to private companies and nonprofits that want to provide broadband in rural areas, according to department figures.

But those initiatives, on their own, have not had a major impact on the overall U.S. broadband figures. So far, for example, only about \$670 million in loans have been approved under the Agriculture program because applicants have to show that their rural broadband ventures will make money—a tough business case to make.

On the whole, the

“The burden and challenge to the private sector is clear: Meet the people’s demand or they will meet it themselves.”

— Michael Gallagher, assistant Commerce secretary

administration believes that deregulation, not government subsidies, is the best way to drive broadband growth.

The problem with the government's approach, says Scott of Free Press, is that the private sector is leaving some places behind. "I'm all for the free market, but the free market doesn't work everywhere," Scott says.

It is against this backdrop that municipalities see a role for themselves in the broadband marketplace. If the large telecommunications and cable companies are not willing to move faster in delivering high-speed access, and if many people can't afford the prices they are charging, proponents say, what is the harm in letting municipalities get in the game?

Baller compares the municipal broadband movement of today to the electrification of rural America in the 1880s and 1890s. Back then, electricity was the "must-have new technology of the age," but private power companies were focused mostly on wiring lucrative

population centers. To ensure that they wouldn't be left behind, many rural communities formed electric utilities of their own. More than 3,200 community-owned electric utilities had come into being by the 1920s, and about 2,000 remain today, according to Baller.

The municipal broadband networks come in many flavors. Some communities, such as Kutztown, are laying fiber-optic wires to the doorsteps of shops and homes. Others, including Philadelphia and the Los Angeles suburb of Cerritos, are building low-cost wireless "mesh" networks by placing small transponders on buildings, lampposts and traffic lights to form a web of "hot spots" that can provide Internet access over a wide area. The city of Manassas, Va., has even started delivering broadband service over electric power lines.

In many cases, the municipality is building the infrastructure and then leasing it to a private Internet service provider to market the service to consumers. Some places are providing TV and phone services as well as high-speed Internet access over their networks.

"The different kinds of municipal broadband are as varied as the different municipalities across the country," says Ken Fellman, mayor of the Denver suburb of Arvada and head of the information technology and communications committee of the National League of Cities.

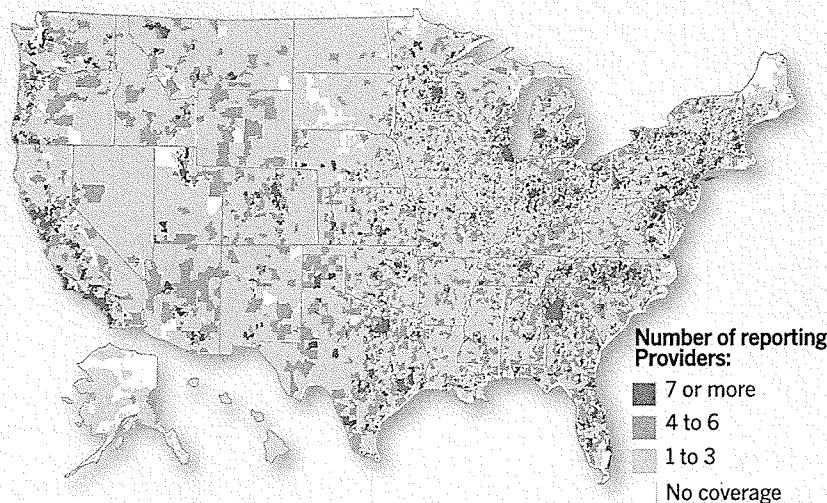
In Kutztown, residents previously had rudimentary cable modem service. Now they pay anywhere from \$15 a month for 64-kilobit-per-second upload connections to \$40 a month for faster 1-megabit upload connections. Download speeds are 2 megabits per second.

That's less expensive than the prices generally charged by the telecommunications giants, and residents don't have to wait for a large telephone or cable company to bring them broadband.

Strasser, the owner of the Saucony Book

Where the Competition Is

A Federal Communications Commission map of high-speed Internet providers in each ZIP code shows the intense competition for urban areas and coastal corridors.



SOURCE: Federal Communications Commission

Localities Set Up High-Speed Battles

BIG TELEPHONE AND CABLE companies have relied mostly on state legislatures in their campaign to restrict or stop municipalities from building their own high-speed Internet systems. But in some instances, the companies are going directly to the voters, either because they lost in the legislature or because they think their case will sell at the grass roots.

In the southern Louisiana city of Lafayette, best known for its Cajun cooking and zydeco music, phone company BellSouth Corp. and cable operator Cox Communications have forced a July 16 referendum on the city's plans to build a fiber-optic network capable of delivering cheap and high-speed Internet to its more than 110,000 residents.

The telecom companies say the Lafayette authorities are meddling in the marketplace. But LaFayette City/Parish President Joey Durel says the telecommunications companies have been slow to upgrade their networks and have maintained unacceptably high prices for the services they offer. He says the new fiber network will benefit the local economy and give poorer residents a cheaper route to the Web.

"We believe we could be the first city in America to solve the digital divide issue," Durel said. "It would be a wonderful signal to send that on this technology a small town in Louisiana is leading the nation."

Lafayette is no stranger to the utility business. The city established its own electrical utility in 1897 after the private power companies who were building systems in the region left Lafayette off their lists. "Our community would have been thirty years behind in getting electricity if the city didn't do that," Durel said.

Now the critical infrastructure that people need, Durel says, is high-quality and affordable broadband.

Stretching fiber-optic wire to every doorstep won't be cheap. The city estimates that it will cost \$111 million. Officials hope about 50 percent of the city's homes will sign up for the offerings, which will include an \$85 monthly bundle of high-speed Internet service, 70 cable TV channels and phone service.

Cox offers a similar package for \$114.95. BellSouth's DSL services alone cost about \$40 a month. Both companies offer Web access at slower speeds than what the city is contemplating.

"We are committed to be 20 percent cheaper than them and faster than any Internet speed they provide," Durel said of the companies' offerings.

BellSouth and Cox are careful not to disparage the city authorities — the companies are regulated locally, after all — but their position is unmistakable: Municipal utilities should not be allowed to compete with private broadband providers because they have unfair advantages. They own public infrastructure and can subsidize money-losing operations, for example.

"It's not about preventing people from getting into the business," said Bill Oliver, president of BellSouth's Louisiana operations. "It's about ensuring municipalities can't sell below cost."

Durel says he asked the telecommunications companies to upgrade their services before he decided to become their competitor. BellSouth told the city it had no plans to install the kind of fiber network Lafayette will be offering. The company says it plans to improve its network, but sees no business case for such costly upgrades. "What is the demand?" Oliver asks. "How many houses are you going to pass that don't want that service?"

Oliver says there is no way the city can keep its operation afloat at the rates it's planning to charge, because it will have all the same costs as a private company. "The numbers just don't make sense," he said. "There's going to have to be cash from somewhere to ensure that the business can survive."

APPEALING TO THE PEOPLE

Durel thought his dispute with the telecom companies was settled when the parties agreed on state legislation, signed into law last year, that allowed the Lafayette project to go forward, provided the city does not unfairly subsidize or give preferential treatment to its own network. The city was all set to begin raising money by issuing municipal bonds, but BellSouth and Cox kept their gloves on. They filed a lawsuit early this year intended to make it easier to force a city-wide referendum on the project. The companies say taxpayers should know they might end up footing the bill if the city's dreams of super-cheap Internet don't pan out.

In February, a state district court ruled in favor of the telecom companies. Instead of appealing, Durel said he decided to let the public vote in July.

"We're showing the people of Lafayette we have all the confidence in the world in them," Durel said. An entrepreneur himself and founder of a chain of pet shops, he is in his first term as city/parish president.

"We know the telecom companies are going to spend millions of dollars to make their case, which we can't compete with," Durel said. "If there's ever a David and Goliath story, this is it."

By itself, the Lafayette project hardly poses a threat to multibillion-dollar telecom companies. But if too many other municipalities across the nation follow its lead, the numbers could take a toll on corporate balance sheets. "They're not afraid of Lafayette, La.," Durel said of the Bells and cable companies. "What they're really afraid of is the domino effect."

“It would be a wonderful signal to send that on this technology a small town in Louisiana is leading the nation.”

— Joey Durel, Lafayette, La., City/Parish President

— AMOL SHARMA

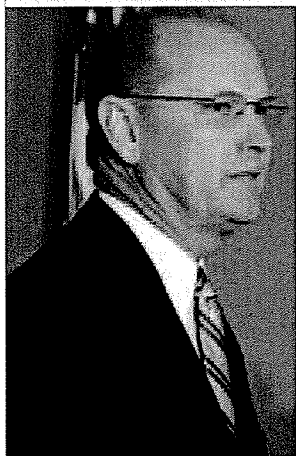


PHOTO / JAY FAUCOT



ONLINE BOUTIQUE: Joanne Lopic, left, and Caroline Sposto say the bath products business they opened in Kutztown, called Paisley & Company, is healthy despite the limited foot traffic downtown because they can sell products on the Internet with the borough's fiber network. "Paisley & Company wouldn't be possible without the broadband network," Sposto says.

Shop, said, "No one was interested in serving this community because we were considered too small a market to care about. We're just a blip on the radar of a huge provider like Verizon or Comcast, barely worth the effort."

Chaska, Minn., a suburb of Minneapolis, built its wireless mesh network to give low-income residents an alternative to cable and DSL offerings priced at \$40 to \$50 a month. "There was a pretty large segment of our city that couldn't afford that," said Bradley Mayer, the city's information systems manager. "This was our attempt to bridge the digital divide in Chaska."

"Chaska.net" went live in July 2004. With speeds of up to 1.2 megabits per second, the service is slower than the connections available from the local cable company, Time Warner. But at \$16 a month, it is also more affordable. "We didn't design this service to replace Time Warner, or to drive anybody out of town," Mayer said. "We designed it to be a low-cost alternative."

Already, 2,000 of the town's 18,000 residents have signed up for Chaska.net, and another 1,000 subscribers are expected by year's end. Mayer says the plan is to pay back within four years the \$1 million private loan the city took out to fund the project.

Greene County, N.C., a farming community hit hard by the decline of the tobacco indus-

try, is also launching a wireless network to reach far-flung rural areas that are of little interest to the phone and cable companies. Until this spring, Sprint provided the only broadband service available in Greene County, offering DSL connections to the 15 percent of county households located within a three-mile radius of the county seat, Snow Hill.

But by September, the "Beyond Tobacco" project will light up 90 percent of Greene County using state-of-the-art wireless technology from Motorola. The project grew out of a public school program that has put laptops in the hands of all middle school and high

school students and provided wireless access on school grounds.

County Extension Director Stan Dixon expects Greene County residents to use the network to research everything from new crops to tips on starting a new business. He even envisions farmers using laptops to look up fertilizer information from the seats of their tractors in their fields.

"Our future is as an information-age society," explained county school superintendent Steve Mazingo, who has been involved with the project from the start. "We will go from being an agrarian economy to an information-age economy."

The prospect of attracting new business, and giving homegrown companies a better path to Internet sales, has been a big incentive for towns and counties considering their own broadband networks.

Among those drawn to Kutztown is the Paisley & Company bath shop, which moved into a historic building on Main Street and advertises its soap and body care products on its Web site as "freshly made in Kutztown, Pa."

"Paisley & Company wouldn't be possible without the broadband network," says Caroline Sposto, one of the owners of the store, which has done a brisk business since it opened in late 2003. "Broadband is necessary for growth and progress and development."

“We didn’t design this service to replace Time Warner, or to drive anybody out of town. We designed it to be a low-cost alternative.”

— Bradley Mayer, Chaska, Minn., network manager

Spoto's business partner, Joanne Lopic, says she hopes the fiber network will also help revive Kutztown's Main Street by drawing more "bricks and clicks" businesses to the area and encouraging more people to stroll and shop. "A thriving downtown adds to the feeling that this is a nice place to be," Lopic says. "Visitors don't have to know that part of revenue that helps support the business comes through the back door, through the computer."

BATTLE ON THE BYWAY

Telecommunications companies are not rushing to serve small rural towns, but neither are they willing to concede the markets to government-owned systems, even those with relatively slow speeds. The companies worry that even small systems such as those in Kutztown and Greene County will set a dangerous precedent for other communities, including major metropolitan markets, where a lot of money is at stake.

Rattled by the prospect of having to compete with governments for customers, the large companies have successfully lobbied for state laws either restricting or altogether barring municipal governments from getting into the communications business.

One of the biggest battles took place in Pennsylvania, after Kutztown showed just what was at stake and Philadelphia announced plans to blanket the city with a low-cost wireless network to bring low-income neighborhoods online.

Although Verizon eventually struck a deal to let the Philadelphia project proceed, it led a coalition of phone companies that lobbied legislation through the Pennsylvania state house late last year to make it harder for other municipalities to follow in the steps of Kutztown and Philadelphia.

The law requires cities that want to set up their own high-speed data networks to first give the local phone company the right to build a network with the data speeds that the community wants within 14 months. If the phone company proceeds, the city must drop its plans.

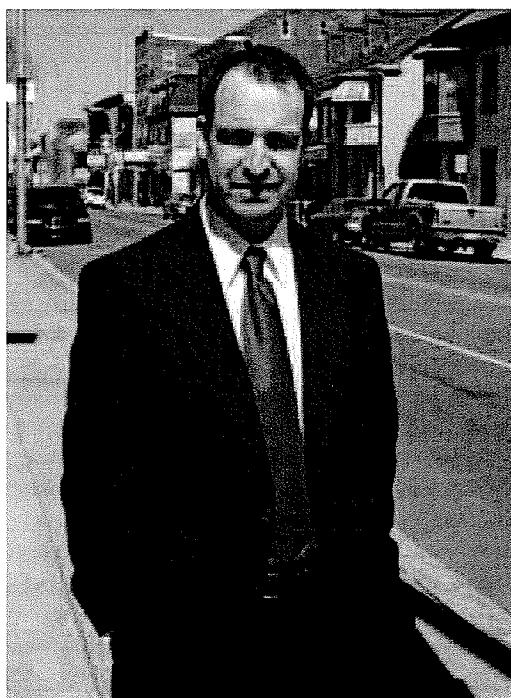
The phone companies can't just sit idle, though. The law also sets deadlines for them to provide broadband across their markets.

Telecommunications companies are pushing to pass similarly restrictive laws or expand existing ones in a dozen states. The Supreme Court ruled last year that states have the authority to enact this type of legislation.

The Bells and cable companies also are tak-

ing their case directly to voters. When the Illinois cities of Geneva, Batavia and St. Charles, picturesque communities grouped near each other in the Fox River Valley 40 miles west of Chicago, held a referendum in 2003 to authorize a municipal fiber-optic network, it was defeated. Proponents of the network blamed a wave of attack ads by the regional telephone provider, SBC Communications, and cable giant Comcast.

In Louisiana, BellSouth and Cox Communications can be expected to mount a similar campaign before a July 16 referendum in Lafayette to decide whether the city should proceed with its own broadband fiber-optic



NET BUILDER: Kutztown borough manager Jaymes Vettrano hopes the town's new fiber-optic network will draw more business to Main Street.

project.

The telecommunications companies argue that the public sector should not be allowed to interfere in the private marketplace.

"We don't think governments should get into providing telecommunications services if private operators are providing those services and are meeting both the industry's standards and the community's needs," said Tim Tippet, vice president for governmental and public affairs at Cox.

The telecommunications industry argues that municipalities have unfair advantages, including access to low-cost capital through municipal bond issues and public rights of way to lay fiber and install wireless transmit-

ters. What's more, local governments don't pay taxes, and they don't face the same pressure to turn a profit, which can help them beat private-sector competitors on price.

The phone and cable companies also warn that municipal networks could have unintended consequences, discouraging private companies from investing in their own facilities and actually impeding the growth of the broadband market.

"When you have government as an over-builder, it distorts the market and discourages private-sector entities from entering the market," says David Young, director of Internet and technology policy for Verizon.

Joseph Bast, president and chief executive officer of the Heartland Institute, a libertarian think tank that gets some funding from the telecommunications companies, questions the basic rationale for municipal networks: that broadband ought to be a universal service and that government can do a better job of providing it than the private sector can.

"There is a false sense of public entitlement and a false sense of the superior efficiency of the public sector because the public sector doesn't have to earn a profit," Bast says.

He maintains that many municipal projects are based on unsustainable business models and are destined to fail. When they do, he says, taxpayers will have to pick up the tab to cover the city's losses.

As a matter of national policy, Verizon's Young says, if the government wants to subsidize broadband access, it might consider issuing vouchers to help people buy service from private Internet providers. "The government doesn't build supermarkets," Young said. "It gives out food stamps."

But where the private sector isn't working, proponents of municipal networks argue, it shouldn't stand in the way of local governments that want to step in.

"One industry should not be in the business of telling local governments what they can and can't provide their citizens," said Fellman of the National League of Cities. "That's like saying you shouldn't have municipal recreational facilities because you have private health facilities." ■

FOR FURTHER READING: *A forecast of telecommunications issues in 2005, CQ Weekly, p. 34; information on Kutztown's fiber service is on the borough's Web site at: www.kutztownboro.org.*